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Western Area Power Administration
HQ Procurement Office &
Internal Audit and Compliance Office

Review Report

Internal Control Weaknesses in the Desert Southwest Region's Purchase Card Program

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MEMORANDUM | Western Area Power Administration

DATE: December 18, 2014

REPLY TO
ATTN OF: A7100, George A. Kelley, Vice President of Procurement [redacted]
A8510, Lisa Hansen, Internal Audit & Compliance Manager [redacted]

SUBJECT: Review Report on Internal Control Weaknesses in Desert Southwest Region's Purchase Card Program

TO: A7000, Anthony Montoya, Executive Vice President and Chief Operating Officer
G0000, Ron Moulton, Senior Vice President and DSW Regional Manager

For our review of the Desert Southwest Region's Government Purchase Card (GPC) Program we datamined 13,875 transactions and identified 2,496 (18%) transactions that will require further review by region officials. We concluded that the region's GPC Program was not in compliance with established policies and procedures and failed to meet minimum program requirements. We found, as detailed herein, weaknesses in the overall control environment that contributed to potentially fraudulent or improper transactions. These weaknesses included:

- Ineffective Program Management
- Ineffective Annual Management Reviews
- Inadequate Oversight and Monitoring at Various Levels
- Ineffective or Non-Existent Internal Control Activities

BACKGROUND

Breakdowns in the internal controls over purchase card programs have been the subject of Congressional and media scrutiny for several years. In fact, in October 2014, the Chairman of the Oversight and Government Reform Subcommittee on Government Operations requested that the U.S. Government Accountability Office conduct an investigation into potential waste, fraud, mismanagement and abuse in the use of federally issued purchase cards, with a focus on transactions involving small purchases. These small purchases are also known as micro purchases and are capped at $3,000 per transaction and can easily add up to several thousands of dollars if not properly managed. At the Western Area Power Administration (Western), both the Procurement Office and the Internal Audit and Compliance (IA&C) Office support and encourage the use of a well-controlled and executed GPC Program. However, it is important that Western has adequate internal controls in place to protect Western from fraud, waste, and abuse.

Western consists of a Headquarters (HQ) and four regional offices located throughout its service area including the Desert Southwest (DSW), Upper Great Plains (UGP), Rocky Mountain (RM), and Sierra Nevada (SN) Regions. At the time of the initiation of our review in July 2014, Western had a total of 1,439 employees and 476 Government Purchase Card cardholders (GPC-

CH). For the purpose of the purchase card review, the Colorado River Storage Project Management Center transactions will be reviewed in conjunction with the RM region's review.

The table below details data by location.

Location	# of Employees	Active GPC-CH	% GPC-CH to # Employees
Headquarters	278	30	10.8%
Desert Southwest	216	65	30.1%
Upper Great Plains	363	177	48.8%
Sierra Nevada	183	56	30.6%
Rocky Mountain	399	148	37.1%
Total	**1,439**	**476**	

Responsibility for the GPC program was delegated by the Head of the Contracting Activity (HCA) to the previous Director of Procurement (Director), who further delegated responsibility to the Administrative Officer in each region. The regional procurement managers report to the administrative officers in each region. The most current delegation to the DSW Administrative Officer is dated September 15, 2005. The DSW Administrative Officer remained responsible for the program until the current Director of Procurement (Director) reported for duty in January 2014 and was subsequently delegated program responsibility by the HCA in March 2014. At that time, the current Director chose to not re-delegate his authority in an effort to learn and understand Western's program and retained overall responsibility as delegated by the HCA.

Subsequently, due to concerns raised by a DSW contracting officer regarding the possibility of questionable up – fitting (accessorizing) of Government owned and/or leased vehicles by several merchants using the purchase card, the Director initiated a review of the possible questionable transactions. Based on the results of that review confirming misuse of the purchase card, the Director requested the IA&C Office to participate in a joint review of DSW's entire purchase card program. Based on the initial results of the DSW purchase card program review, the decision was also made to review the purchase card program Western-wide. The purchase card review teams will conduct similar reviews of the purchase card programs at Western's other locations in the following order: HQ, RM, UGP, and SN. The Director and IA&C Manager plan to report separately on the results of the reviews of these locations. The intent of this report is to alert management on the results of the review of the DSW purchase card program for their further action. Once all individual purchase card programs have been reviewed across Western, the Director and Manager will issue a consolidated capping report summarizing the Western-wide review results and will provide recommendations for corrective actions to address any weaknesses identified.

RESULTS OF REVIEW

We found overall control environment weaknesses at DSW that contributed to breakdowns in key control activities and potentially fraudulent and improper purchase card transactions. Ineffective oversight of the purchase card program by the DSW Administrative Officer and HQ

Procurement Policy team significantly contributed to weaknesses in the overall control environment. In general, effective oversight activities would include management reviews and evaluations of how well the purchase card program is operating, including the internal control activities. We identified minimal monitoring or oversight activity directed at assessing program results, evaluating internal control, or identifying the extent of potentially fraudulent, improper, and abusive or questionable purchases. The control weaknesses and supporting examples of potentially fraudulent or improper transactions are presented later in the report.

Since the initiation of our review, the HCA and DSW Regional Manager (RM) have taken proactive measures to increase awareness of compliance with purchase card program requirements. On August 21, 2014, the HCA sent an email to Western's Managers notifying them that several instances of improper use of Government purchase cards had been identified and included possible unlawful activity, unauthorized purchases, questionable purchases, inability to account for property purchased, and splitting of purchases to overcome transaction limits. The HCA further stressed that these issues are extremely serious and that in the interim it is crucial that the purchase card users and approving officials fulfill their obligations and to scrutinize every purchase to ensure proper use.

At DSW, the RM issued a memorandum to the administrative officer on August 20, 2014 informing him of key cardholder requirements that must be followed and that failure to follow Department of Energy's (DOE) *Purchase Card Policy and Operating Procedures* can lead to card suspension and even closure of the cardholder's account. In addition, on September 16, 2014 the DSW Vice President of Transmission System Asset Management notified the RM that based on their purchase card volume review there was a reduction/closure of 14 cards bringing the total down to 41 cards, an overall reduction of 25 percent.

While this is a step in the right direction, further action is needed to strengthen the controls over DSW's purchase card program. The purchase card is a valuable tool for Western to streamline the process in meeting its purchasing needs. However, implementing a program while not implementing effective controls and performing adequate management oversight permits potentially fraudulent, improper, and abusive or questionable transactions to go undetected. The problems we identified with missing supporting documentation, insufficient official review, and failure to follow laws, regulations, and policies and procedures leave DSW and Western vulnerable to fraud, waste, and abuse.

cc: Linda Kimberling, Senior Vice President and Chief Financial Officer

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Weaknesses in Overall Control Environment

We found overall control environment weaknesses at Desert Southwest (DSW) Region that contributed to breakdowns in key control activities and potentially fraudulent and improper purchase card transactions. Ineffective oversight of the purchase card program also contributes to weaknesses in the overall control environment. In general, effective oversight activities would include management reviews and evaluations of how well the purchase card program is operating, including the internal control activities. We identified little to no monitoring or oversight activity directed at assessing program results, evaluating internal controls, or identifying the extent of potentially fraudulent, improper, and abusive or questionable purchases. In addition, the HQ Procurement Office did not provide adequate oversight and management of the Government Purchase Card (GPC) program. Once the HQ delegated program responsibility to DSW, it did not ensure adequate control activities were in place and/or utilized to ensure a sound compliant program existed. The control weaknesses are described below and supporting examples of potentially fraudulent or improper transactions are presented later in the report.

The Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* [1] states that "Management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management. A positive control environment is the foundation for all other standards. It provides discipline and structure as well as the climate which influences the quality of internal control."

Ineffective Annual Management Reviews

The Department of Energy's (DOE) *Purchase Card Policy and Operating Procedures*[2] (Procedures) state that the "HCA should ensure annual review of cardholder records are conducted and documented to determine the extent of adherence to prescribed procedures, guidelines, policies, regulations, and good management practices, and to identify any needs for improvement, guidance and/or training." These reviews should include an assessment of the appropriateness of transaction dollar limits as well as confirmation of the need for the account based upon usage. The review should also include selecting a sampling of cardholder records under each of the approving official accounts and completing a designated checklist per each individual record reviewed in the sample selected. Based on the large number of improper transactions identified it is clear that the annual reviews were not sufficiently performed with attention to detail, otherwise these items would have been identified and appropriate action taken. The Administrative Officer in place during the review scope period stated that there were no internal spot checks conducted, rather they relied on the data mining performed by DOE, but could not elaborate on what, specifically, was accomplished. HQ's management and oversight of these reviews were equally flawed. Some of the same transactions reviewed by this audit were compared to annual reviews conducted independently by DSW and concurred with by HQ

[1] GAO's *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1, November 1999
[2] Department of Energy *Purchase Card Policy and Operating Procedures*, CHAPTER 13.1, August 2012

for the HCA annual reports and numerous discrepancies were identified further attesting to the breakdown of internal controls.

Inadequate Daily Oversight and Monitoring

Our testing revealed that documented evidence of approving officials' review of cardholders' transactions and their reconciled statements did not indicate that the supervisors had actually reviewed each transaction and reconciled it to the supporting documentation. *Financial Management Regulation*, volume 10, chapter 10, section 1203, which says that (1) cardholders are to reconcile each statement against supporting documentation and sign the statement and (2) approving officials are to reconcile the cardholders' statement and sign the consolidated monthly bill. Further, DOE's Procedures state that the approving official (AO) must review, approve, and sign the monthly account statement. The AO's signature represents among other things that (1) all purchases were authorized, (2) the cardholder did not make repetitive purchases for the same item from one merchant, (3) requirements were not split, (4) documentation for the purchase transaction is completed, and (5) documentation and invoice dates match purchase dates. The numerous violations we identified of non-compliance with laws, regulations, policies and procedures fully supports that the supervisors are not performing their monitoring responsibilities.

We did consider the approving official's span of control over the number of purchase card accounts. AOs having responsibility of more cardholders than they can effectively supervise is indicative of a weak control environment. DOE's Policy and Operating Procedures, Section 32 states that ... "An AO should normally be responsible for no more than five cardholders, or 500 transactions per month, except with the approval of the HCA, or designee." The Director is currently reviewing the spans of control in conjunction with the volume of transactions to oversee.

According to GAO's *Internal Control Standards: Internal Control Management and Evaluation Tool*[3], agency internal control monitoring assesses the quality of performance over time. It does this by putting procedures in place to monitor internal control on an on-going basis as a part of the process of carrying out its regular activities. It includes ensuring that managers and supervisors know their responsibilities for internal control and the need to make internal control monitoring part of their regular operating processes. Ongoing monitoring occurs during normal operations and includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties.

Approving Official Review

We noted numerous cases during our review where the approving official certified the billing statement for payment but had not examined the transactions or the documentation supporting them to determine whether the transactions were correct and for a valid

[3] GAO's *Internal Control Standards: Internal Control Management and Evaluation Tool*, GAO-01-1008G, August 2001

Government purpose. Such activities allow potentially fraudulent, improper, abusive, and questionable purchases to go undetected. Examples of fraudulent and improper transactions are discussed later in this report.

Approving official review is a recognized control activity at all levels of the purchase card program. Policy and guidance requires approving officials to review and certify each cardholder's monthly transactions and those transactions and other significant events should be authorized and executed only by persons acting within the scope of their authority. This is the principal means of assuring that only valid transactions to exchange, transfer, use, or commit resources and other events are initiated or entered into. Without documentation of such reviews neither we, as program oversight, nor program coordinators can determine the extent that the approving official is carrying out review responsibilities.

GAO's *Standards for Internal Control in the Federal Government*[4] states that "transactions and other significant events should be authorized and executed only by persons acting within the scope of their authority. This is the principal means of assuring that only valid transactions to exchange, transfer, use, or commit resources and other events are initiated or entered into."

Controls over the Issuance and Assessment of Ongoing Need for Cards

DOE's guidance does not address how approving officials or supervisors are to select those individuals to be issued a purchase card. Carefully controlling the issuance of cards and continually re-assessing the need and justification for outstanding cards are important issues in controlling the Government's risk in the purchase card program. At DSW the process was for the individual supervisors to determine who should receive a purchase card. Without guidance or criteria to make a sound decision, there is an increased risk of issuing more cards than needed to the wrong individuals. Further, the guidance does not address the need to reassess the ongoing need for outstanding cards.

Cardholder Spending Limits

DOE's guidance does not address controlling cardholder spending limits. At DSW the individual supervisors determined the single purchase and total credit limits for each cardholder. These were not controlled or determined by the administrative officer as program coordinator or assessed/reviewed by the HQ procurement policy manager or program coordinator. We found that individual transaction limits were generally set at the micro-purchase threshold of $3,000. However, we did not see evidence that limits were set based on an analysis of individual cardholders' needs or past spending patterns. The Director has taken corrective action to look at all single purchase and cycle limits and making adjustments where necessary. He is also requiring documented business cases for all requests. Based on the review of the DSW cardholder single amount limits, all but two cardholders had single purchase limits set at $3,000 or below.

[4] GAO's *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1, November 1999

Credit Limits Exceeded Procurement Needs

During the review, the team also identified 19 infrequently used cards with a total credit exposure of $362,500. Two of these had spending limits set at the maximum of $100,000 and had single purchase limits of $100,000. These cardholders were included in the review of transactions and were still active accounts as of August 13, 2014. Limits that are higher than justified by the cardholder's authorized and expected usage unnecessarily increase the Government's exposure to potentially fraudulent, improper, and abusive purchases. Limiting credit available to cardholders is a key factor in managing the purchase card program and in minimizing the Government's financial exposure.

Purchase Card Procurement of Services

We identified several transactions where the purchase card was used to procure services that were in violation of the Service Contract Act (SCA). Purchases of services may be made with the purchase card; however, the GPC should not be used to obtain services greater than $2,500 subject to the SCA. These services include garbage collection, facility maintenance, janitorial services, etc. and routinely exceed $2,500 per year. The following details two examples of the SCA violations identified. In addition we identified transactions that were set up on monthly automatic pay with no records of services schedules, proof service was rendered, or acceptance prior to authorizing payment. Payments to these vendors demonstrate clear violation of the GPC program requirements.

- Numerous monthly charges were made to Waste Management from January 2012 through May 2014. We found that the $2,500 annual limit for the SCA was exceeded each year in the scope of our review. Specifically, for calendar year (CY) 2012 the charges totaled $6,299.92; for CY 2013 the total was $5,265.82; and through May 2014 the total was $3,420.53.

- Several individual large dollar transactions ranging from $740 to $2,825 were made to Southwest Ground Control during CYs 2012 and 2013. We found that the $2,500 annual limit was exceeded for each of these years. Specifically, for CY 2012 the charges totaled $8,590.00 and for CY 2013 the total was $19,600.

Proper Procurement Vehicles Were Not Used for Certain Procurements

Of the transactions reviewed, we found no documentation showing evidence that the priority of sources requirements was met or considered. Purchases of office supplies, boots, nomex gear, printer toner, computer equipment, electronics, and other items that are readily available through General Services Administration (GSA) are being purchased on the open market, often times at substantially greater cost. All purchases using the GPC must be in accordance with the *Federal Acquisition Regulation* (FAR) Part 8, Required Sources of Supplies and Services, Part 12, Acquisition of Commercial Items, Part 13, Simplified Acquisition Procedures and others as applicable. We did not find any

evidence that cardholders considered or documented any market research. In addition, supplies, clothing, furniture, etc. are being purchased at commercial sources that are available from mandatory sources such as the AbilityOne Program and Unicor.

Key Internal Control Activities Were Not Effectively Implemented

Our work shows that key internal control activities over the DSW purchase card program were either ineffective or not in place. Poor internal controls created a weak control environment that permitted potentially fraudulent and improper transactions to take place. Control activities occur at all levels and functions of an agency. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, and the production of records and documentation. We found that the following control activities were either not effective or were not in place: (1) obtaining and retaining invoices and documentation supporting purchase card transactions, (2) purchases made to DOE mandated blocked MCC codes, (3) lack of training on the purchase card program at the region level, and (4) lack of accountability over property procured with the purchase card.

Obtaining and Retaining Invoices and Supporting Documentation

GPC-CHs and approving officials are not maintaining proper documentation to support purchases. In our request for supporting documentation for selected transactions, DSW personnel were unable to locate or could not provide evidence supporting transactions for 67 cardholders. Cardholders are required to reconcile the statement of account with their purchase card log and convenience check log (if applicable) and maintain copies of charge/credit slips, customer receipts, and other required documentation. Evidence of the following is also required: (1) consideration of prices obtained from a single source to be fair and reasonable if the purchase is made without securing competitive quotations, (2) evidence that the purchases are distributed among qualified suppliers by rotating recurring purchases among merchants, and (3) detailed and sufficient documentation to substantiate purchases for supplies or services (competition, fair price, delivery, etc.) for oral and mail order (internet) purchases. In all these cases there needs to be a sound audit file and we found this did not exist at DSW. In fact, there was no indication of quality, detailed reviews either by the DSW administrative officer or the HQ Procurement Policy team.

We identified multiple purchases made from single vendors with no documentation to support price fair and reasonableness and/or rationale of not distributing purchases among qualified suppliers. In summary, none of the transactions reviewed were properly documented and supported. No explanations were provided with the statements concerning lost or no documentation to support purchases.

Further, according to DOE's Procedures, cardholders must maintain a purchase card log. At a minimum, the log will contain the date on which the item or service was ordered, the merchant's name, the dollar amount of the transaction, a description of the item or service ordered, and an

indication of whether the item was received. Our review at DSW indicated that these logs are not being maintained in accordance with the guidance.

GAO's *Internal Control Standards* state, "all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. All documentation and records should be properly managed and maintained." Without supporting sales receipts or invoices, it is not possible to tell the quantity and type of items purchased or whether those items were for a valid Government requirement or of a personal nature.

Purchases Made to Mandated Blocked MCC Codes

DSW cardholders made transactions to six merchant category codes (MCC) that DOE had designated to be blocked. Specifically, 110 transactions totaling over $90,000 were made using the purchase card to merchants with these MCCs. The MCC descriptions included motorcycle shops, automotive body repair and paint shops, car washes, and motion picture theaters. DOE's Procedures state that "should a cardholder need to make a valid purchase from a merchant in one of these category codes, their OPC will need to clear the purchase with the JPMChase Bank. If recurring transactions need to be made from blocked MCCs the OPC shall submit a request, with justification to the APC for approval."

In November 2014, the Director obtained a current list of blocked MCC codes for Western. Upon review, all six of these MCC codes had been requested by Western, at some point, to be unblocked by DOE. However, the Director was unable to locate the required written justification documenting that the HQ Organizational Program Coordinator (OPC) or DSW's administrative officer requested that the DOE HQ Agency Program Coordinator approve use of these six codes, or any documentation to indicate the reasoning for the MCCs to be unblocked at all. However, after the audit was completed DOE provided evidence of a request by Western in 2008 as a seemingly temporary solution to issues with Western's Fleet Card. There is no documentation of a follow-up once the Fleet Card issues were resolved. The Director is currently re-validating all mission needs related to these blocked codes. Identifying and blocking certain MCC codes from purchases from a merchant is a control that stops a transaction at the point of sale to reduce the risk of having potentially fraudulent, improper or abusive transactions. In addition, we found no evidence that single purchases to blocked MCCs were authorized or documented.

The table below details the six MCC codes, descriptions, example merchants, and dollar and volume of corresponding transactions.

MCC Code	MCC Description	Example Merchants	$ Charged	# Transactions
5571	Motorcycle Shops and Dealers	Cycle Gear, Northland Motorsports	$64,915.01	62
7531	Automotive Body Repair Shops	Cutting Edge Auto Glass, Precision Truck Painting	$14,744.41	27
7535	Automotive Paint Shops	Beeler Equipment Co, Beaver Stripes	$124.86	4
7542	Car Washes	Nicely Clean Auto, The Car Wash	$775.00	4
7549	Towing Services	Barnetts Towing LLC, Interstate Towing	$6,699.66	10
7832	Motion Picture Theaters	Harkins Reel Deals	$2,766.00	3
		Total	**$90,024.94**	**110**

Lack of Training at the Regional Level

Neither the DSW Administrative Officer nor the HQ Procurement Policy team provided any region specific training, local procedures or processes, or supplement the minimum required training to ensure assigned cardholders understood program requirements. In addition, minimum oversight of cardholder transactions and approving official records significantly contributed to deficiencies within the area of responsibility. The Director is in the process of developing supplemental training to present to the regions in addition to the mandatory annual GPC training to further reinforce the importance of effective controls and adherence to laws, regulations, policies and procedures.

According to GAO's *Internal Control Standards: Internal Control Management and Evaluation Tool*[5], to effectively manage the workforce to achieve results the agency should consider ensuring that "Employees are provided orientation, training, and tools to perform their duties and responsibilities."

Lack of Property Accountability

We did not locate evidence that personal property purchased and receipted by the cardholder was reported to the property management office for proper accountability and control. DOE's Procedures state that "personal property purchased and receipted by the cardholders is to be reported to the property management office, in writing," that includes the cardholders name, office, telephone number, building and room number; nomenclature, model and serial numbers of the property, original acquisition cost,

[5] GAO's *Internal Control Standards: Internal Control Management and Evaluation Tool*, GAO-01-1008G, August 2001

delivery or acceptance date, receive verification (witness name, office, telephone number, building and room number). Personal property is being purchased for and provided to contractor personnel without authority or accountability.

Each card purchase is required to be manually or electronically documented that includes completion and evidence of property receipt. Property receipts are required to be submitted with the monthly statement of account to the approving official and the original will be maintained by each cardholder for record keeping purposes. Cardholders and approving officials did not ensure accountable, sensitive, and other property is properly accounted for and recorded. We concluded that 100 percent of the files reviewed did not meet minimum documentation requirements.

Control Weaknesses Contributed to Potentially Fraudulent or Improper Transactions

GAO has found numerous instances of fraud, waste, and abuse related to the purchase card program at dozens of agencies across the Government. At DSW, we identified several purchase card transactions that were either potentially fraudulent or improper. Internal control weaknesses in Western's purchase card programs at HQ and region levels directly increase the risk of fraudulent, improper, and abusive transactions. Some of the potentially fraudulent and improper transactions were proactively identified by DSW officials and the remaining transactions were identified during our review. The narrative below describes some of these examples.

Potentially Fraudulent Purchases

We identified instances of potentially fraudulent transactions at the DSW regional office. GAO defines fraudulent purchases as "Use of the government purchase card to acquire goods or services that are unauthorized and intended for personal use or gain." Specifically, we found several transactions for the purchase of items that appear to be for personal use. Because of the lack of supporting documentation in the cardholders' files we were unable to determine the justification for the purchases or whether they were for Government use. The review did document instances of purchase for and by contractor personnel that are prohibited. The review also identified instances of contractor personnel performing inherently Government functions.

Examples include the following:

MCC Description	Example Merchants	$ Charged
Book Stores	Amazon	$59,484.24
Clothing, Department Stores	Dick's Sporting Goods, Sears Roebuck, Carhartt	$42,168.50
Drug Stores, Pharmacies	Walgreens	$528.56
Grocery Stores, Supermarkets	Target, Walmart	$16,929.49
Recreational & Utility Trailers	Deer Valley Trailer	$13,204.93
Recreational & Utility Trailers	Arizona Campers & Trailer	$17,378.58
Shoe Stores, Commercial Footwear	Famous Footwear, Red Wing Shoes, Boot Barn, Keen, Inc.	$17,569.94
Specialty Retail Stores – Misc.	Arizona Glove & Safety	$3,676.05
Sporting Goods Stores	Arizona Hiking Shack	$8,901.64
Sporting Goods Stores	Cabela's Retail	$38,847.64
Sporting Goods Stores	Camping World	$3,694.92

Improper Purchases and Transactions

Our data mining identified numerous examples of improper and abusive transactions. Improper transactions are those purchases that although intended for Government use, are not permitted by law, regulation, or Government/agency policy. Examples we found included (1) split purchases made to circumvent the cardholder single-purchase limit or to avoid the need to obtain competition on purchases over the $3,000 micro-purchase limit; (2) improper sources when cardholders do not buy from a mandatory procurement source, or document reasoning for not purchasing from these sources; (3) improper use of convenience checks; and (4) purchases that were prohibited or otherwise not authorized by federal law, regulation, or Government/agency policy.

We identified transactions at the DSW regional office that were improper; including split purchases and purchases from improper sources. GAO defines, in general, improper purchases as "Government purchase card transactions that are intended for government use but are not permitted by law, regulation, or organization policy."

Split Purchases

Another category of improper transactions is a split purchase, which is the practice of splitting a transaction into two or more small transactions to keep the purchase beneath a cardholder's single purchase limit, or other established credit limits. Based on our analytical review we identified at a minimum over 360 combinations of transactions totaling over $736,000 that appeared to be split purchases. In addition, of the 81 cardholders included in our review, 25 (31 %) had transactions that appeared to be split purchases. The *Federal Acquisition Regulation* and DOE's purchase card procedures prohibit these practices. Once items exceed the $3,000 threshold, they are to be purchased in accordance with simplified acquisition procedures, which are more stringent

than those for micro-purchases. During our review we identified examples where one cardholder split transactions to a single merchant as well as multiple cardholders together splitting transactions to the same merchant. Examples of these include:

- On January 24, 2012, one cardholder made three individuals purchases in the amounts of $1,132.20, $2,578.59, and $2,704.75 totaling $6,415.54 to a home supply warehouse store. The transaction identification numbers for these three were consecutively numbered.

- On January 15, 2013, two purchase cardholders made two separate transactions of $2,499.01 and $2,852.48 totaling $5,351.49 on the same vehicle identification number and Maximo asset number at an automotive parts store.

- On February 21, 2013, three purchase cardholders made three separate transactions of $2,398.37, $2,870.95 and $1,001.83 totaling $6,271.15 on the same vehicle identification number and Maximo asset number at an automotive parts store.

- On February 7, 2014, one cardholder made three individuals purchases in the amounts of $781.80, $2,456.54, and $1,211.20 totaling $4,449.54 to an electrical contractor. The transaction identification numbers for these three were consecutively numbered.

Order of Precedence

Another type of improper purchase occurs when cardholders do not buy from a mandatory procurement source or consider the priorities for use of mandatory sources required by FAR Part 8. If not a mandatory source, agencies are encouraged to consider satisfying requirements from or through non-mandatory sources such as Federal Supply Schedules, Government-wide acquisition contracts, etc. While procurement source was not the primary focus of our work, we noted that cardholders frequently did not purchase from or through non-mandatory sources such as Federal Supply Schedules, Government-wide acquisition contracts, etc. For example, we noted numerous purchases of office supplies, personal items (boots, nomex clothing, safety equipment), electronics (computers, digital cameras, gps systems, and other accessories) from local vendors when these or substantially similar products were available from either mandatory or non-mandatory sources such as the General Services Administration or one of its contractors' catalogs or Web sites, oftentimes at considerable savings. In addition, supplies, clothing, furniture, etc. are being purchased at commercial sources that are available from mandatory sources such as the AbilityOne Program and Unicor. There was no documentation uncovered that considered these sources to determine if their products or services could meet agency needs. Adequacy of program management and control of key supplies and services could not be determined due to lack of any supporting documentation.

Improper Use of Convenience Checks

Our analysis of convenience check use from January 1, 2012 through June 30, 2014 identified purchase cardholders with convenience check authority had issued 356 convenience checks totaling over $306,400. The corresponding convenience check fees incurred for these transactions totaled almost $4,600 or 1.5 percent of the face value of each check processed. According to DOE's Procedures "convenience checks are a payment and /or procurement tool intended only for use with merchants that do not accept purchase cards and for other authorized purposes where charge cards are not accepted...and should be used as a payment method of last resort." In addition, because there is a 1.5 percent fee for using a convenience check, cost-benefit considerations are required when using convenience checks.

We identified improper use of convenience checks related to payments (1) in amounts over $2,500 for services or construction work, (2) for recurring services, and (3) to vendors who accept purchase card payments. For example:

- Amounts greater than $2,500 – we identified 7 convenience checks each in excess of the $2,500 limit for services or $2000 limit for construction work. The dollar amounts of the checks ranged from $2,850 to $2,952.55.

- Recurring services – we identified 22 regular payments to Valley Power Sweeping from February 2012 through June 2014 with most transactions in the amount of either $205 or $225. The total dollar amount to this vendor was $5,220.

- Vendors who accept purchase card payments – we identified transactions to merchants that clearly accept purchase cards: USPS, American Fence Corp., Alstom Grid, Papa John's Pizza, Churchs and Dunkin Donuts.

Further, according to DOE's guidance, cardholders must maintain a Convenience Check Log which must include the check number, merchant name, business address, merchant TIN or SSN, the description of the purchase, the dollar amount of the purchase, the dollar amount of the check fee, and the total cost. Our review at DSW indicated that these logs are not being maintained in accordance with the guidance.

Prohibited Purchases

We found that a cardholder improperly used the purchase card as an acquisition vehicle without a negotiated contract. Rental or lease of land or buildings is restricted to a term of not more than 1-month. Specifically, the cardholder used the purchase card to rent an "on-site" office trailer each month from November 5, 2012 through February 16, 2014 at a total cost of $7,907.54.

We also found numerous instances where the DOE purchase card was used to up-fit GSA vehicles. Examples of up-fitting would be adding radios, mud flaps, suspension upgrades,

bumpers, different wheels and tires, and high jacks for lifted trucks. The justification given for adding equipment was to enhance GSA vehicles so that they could better perform duties necessary to carry out Western's mission. Purchase of supplies or services for GSA fleet vehicles is prohibited by DOE policy. In addition, the Code of Federal Regulations requires GSA approval for the modification of a GSA fleet vehicle for which we found no evidence of compliance. We identified three vendors known to perform up-fitting. These vendors were: Drake Equipment, Fly-N-Hi and XTC Motorsports. Some examples of items installed were: lift kits, off road shocks, custom wheels and tires, custom bumpers, fog lights, winches, new radios, GPS units, and tool boxes. DOE policy prohibits the use of the GPC for supplies or services for GSA leased vehicles.

The table below details the specifics for these three vendors.

Vendor	Total Dollar Amount of Transactions	Total Number of Transactions
Drake Equipment of AZ	$53,270.11	42
Fly-N-Hi	$8,300.00	1
XTC Motorsports	$160,669.28	70
Total	$222,239.39	113

The crew vehicle shown below is one example where a GSA vehicle was up-fitted with items that were not considered mission essential. The approving official did not scrutinize the requests and permitted $13,523.98 in upgrades to this truck. The following is a breakdown of the items purchased to up-fit one GSA vehicle.

Upgrade Description	Dollar Amount
Original Tires and Wheels	$1,783.65
Replacement Tires and Wheels (original were wrong size)	$2,539.75*
Front Bumper	$2,760.56*
Lift Kit	$2,468.80
Winch	$1,946.03*
Sure Step	$1,155.23*
Mud Flaps/Fender Flares	$869.96*
*Transaction was verified in DSW purchase card database **Total**	$13,523.98

[redacted]

CONCLUSIONS

The purchase card is a valuable tool for Western to streamline the process in meeting its purchasing needs. However, implementing a program while not implementing effective controls and performing adequate management oversight permits potentially fraudulent, improper, and abusive or questionable transactions to go undetected. The problems we identified with missing supporting documentation, insufficient official review, and failure to follow laws, regulations, and policies and procedures leaves DSW, and ultimately Western, vulnerable to fraud, waste, and abuse. Several of the transactions highlighted within this report are examples of misuse of the purchase card. In addition, the supervisors have not demonstrated the commitment to enforce established controls.

We support the use of a purchase card program with effective controls and recognize that strengthening the control environment will require detailed attention and commitment by all parties involved. We will provide recommendations to address the weaknesses identified within this report at the completion of the reviews of the purchase card programs Western-wide.

OBJECTIVE, SCOPE AND METHODOLOGY

OBJECTIVE

To determine whether the Desert Southwest Region (DSW) was effectively overseeing and managing its GPC.

SCOPE

The review was performed during August 2014 at the Western Area Power Administration (Western), Desert Southwest Region (DSW) and Headquarters Office (HQ), Lakewood, CO. We evaluated the effectiveness of DSW's GPC program by assessing the adequacy of internal controls and compliance with regulation, policy, and operating procedures.

METHODOLOGY

To accomplish our objective, we:

- Obtained and reviewed applicable Western and DOE HQ guidelines, policies, and operating procedures pertaining to the use of the government purchase card;
- Identified the universe of purchase card transactions made by DSW for the period January 1, 2012 through June 18, 2014;
- Data mined/judgmental sampled from DSW's universe of 13,875 purchase card and convenience check transactions totaling approximately $7.444 million from the period January 1, 2012 through June 18, 2014;
- Used the data mining results to select a sample of transactions covering 81 cardholders to review;
- Reviewed documentation for the sample of purchase card and convenience check transactions against Western and DOE HQ guidelines, policies, and operating procedures;
- Held discussions with the Director of Procurement, DSW Procurement Manager, DSW GPC Program coordinators, and Western's Procurement Policy Manager; and
- Obtained and reviewed the results of DSW's FYs 2012, 2013 and 2014 GPC program reviews.

A preliminary exit briefing was held with the Acting DSW Regional Manager and Administrative Officer on August 6, 2014 and Western's Head of the Contracting Activity on August 8, 2014 with written follow-up August 11, 2014.

DEFINITIONS

Abuse: Use of a Government charge card to buy unauthorized items, or authorized items but at terms (e.g., price, quality) that are excessive, for questionable Government need, or both.

Approving Official (AO): The individual delegated approving authority by the Head of the Contracting Activity (HCA) or designee. The AO is responsible for reviewing the monthly Statements of Account for each assigned cardholder and to ensure that purchases are made, and documentation kept, in accordance with (IAW) all regulatory and procedural guidance. The AO is usually the cardholder's supervisor, or a person independent of the cardholder, and is at least one level above the cardholder.

Blanket Letter of Approval: A written approval issued by an AO identifying certain types of purchases that cardholders under their purview can make without seeking their AO's approval prior to the transaction.

Cardholder: A Western employee with delegated purchasing authority who is issues a purchase card, is the sole user of the card, is the custodian of the card, and has his or her name embossed on the card.

Convenience Checks: Checks that can be written in lieu of using the purchase card for purchases from merchants who do not accept the purchase card. There is a service charge equal to 1.5% of the face value of the check for each check written.

Data Mining: An automated process used to scan databases to detect patters, trends, and/or anomalies for use in risk management and other areas of analysis.

Fair and Reasonable: A determination that the price is what a prudent person in the ordinary course of business would pay without any undue influence.

Government Purchase Card (GPC): A distinctly designed VISA purchase card issued under the GSA SmartPay Program.

Improper Purchase: A purchase of goods or services intended for Government use but not permitted by law or regulation, or that is in violation of law or regulation.

Limits:
Single Purchase Limit: The maximum dollar limit for an individual purchase card transaction.
Monthly Spending Limit: The maximum dollar amount authorized to be spent by a cardholder within a 30-day period.
Cycle Limit: The maximum dollar amount authorized to be spent by a cardholder within the billing cycle.
Micro-purchase: An acquisition of supplies or services using simplified acquisition procedures, the aggregate amount of which does not exceed $3000 for supplies, $2000 for construction, and $2500 for services subject to the Service Contract Act.

Misuse: Use of a Government purchase card for other than the official Government purpose for which it is intended.

Purchase Card Log: A manual or automated log in which the cardholder documents his/her individual transactions. The purchase card documentation should provide an audit trail supporting the decision to use the card and approvals that were obtained. At a minimum, the log will contain the date on which the item or service was ordered, the merchant's name, the dollar amount of the transaction, a description of the item or service ordered, and an indication of whether the item was received. If a convenience check is used the log must contain the merchant's business address and tax identification number.

Split Purchase: The practice of splitting a transaction into two or more small transactions to keep the purchase beneath a cardholder's single purchase limit, or other purchase limitation.

MEMORANDUM

DATE: December 19, 2014

REPLY TO ATTN OF: G1000

SUBJECT: Corrective Action Plan following the Review of the Government Purchase Card Program, Desert Southwest Region

TO: A. Montoya, A7000

The purpose of the subject review was to evaluate the overall Government Purchase Card Program (GPC) program at Desert Southwest Region (DSW) and identify any material weaknesses with the administration of the program. The onsite review took place the week of August 4, 2014, and covered a period of approximately January 1, 2012 through June 18, 2014. The draft report identifies several areas of concern. The findings in the draft report have been reviewed and DSW concurs with the initial findings.

This memorandum serves to memorialize the efforts to date and initiate a high-level Corrective Action Program (CAP) for DSW.

Subsequent to the onsite audit of August 2014, the following steps have been taken:

1. The Administrative Officer drafted a memorandum for the Regional Manager's signature that provided guidance on the use of the GPC and Approving Official (AO) responsibilities. This memorandum was sent to all DSW cardholders and AO's with instructions to comply and enforce the requirements.

2. Cardholders were instructed to obtain approval for each and every transaction from their AO prior to purchase.

3. The total number of GPCs at DSW was reduced.

4. Additional training was provided to staff at the DSW Regional office and staff at various substations throughout the DSW region. An annual GPC training will be provided during Safety/Wellness week in February and Craft Week in July.

5. One AO's authority has been removed and several cardholders have had their cards suspended or removed.

Upon receipt of the final GPC report, the targeted next steps will be as follows:

1. Continued coordination with the Supervisor Auditor (A8510) and the Vice President of Procurement (A7100) to perform additional data mining reports as needed. These reports will provide additional detailed summaries, and determination of exceptions by theme, function, and person. These reports will be utilized to determine high-risk areas

and will identify areas of concern by priority. Data mined from these reports will be utilized to create and implement a more structured and detailed CAP. This first step will be completed by January 23, 2015.

2. Development of case files and identification of focus areas for further investigation and follow up in response to detailed reports, mined data, GPC files, property inventories, and employee interviews. Coordination will take place with A7100 and any other appropriate offices in determining if a case file needs to be reviewed at the Regional, Western Area Power Administration Headquarters (HQ) or the Department of Energy (DOE) level. Planned completed date for this is May 29, 2015.

   This step is fluid due to resource constraints and the actual time required for individual case file review. For example, a recent case required a review of the file and coordination with the appropriate DSW offices which took approximately 7 hours. This does not include employee interviews that still need to occur and union notification for any actions that may result. This case file was relatively short and only spanned 20 months and approximately 120 transactions.

   All completion dates are contingent upon receipt of the final report.

3. Coordinate with Human Resources and the appropriate offices at Headquarters regarding any necessary employee actions. Corrective actions will be handled on a case-by-case basis and may occur at various levels within DSW. Cases resulting in potential actions will be identified at the conclusion of each case file review and assigned to the responsible manager.

4. Recommend consideration be given to developing a Western-wide CAP to ensure detailed findings and practices put in place are consistent throughout all of Western. Any disparity in practices could increase EEO complaints and result in litigation.

This is a very high-level framework of next steps that will be shored up and further detailed upon receipt of the final report and coordination of appropriate offices at DSW and HQ. DSW will be the model program for Western and recognizes the importance of this matter. We plan to ensure required compliance and the development of a quarterly or annual audit that is more rigorous than previous audits. We will transparently work with HQ in developing this audit that not only creates the needed rigor and compliance, but produces a compliant culture and improved quality processes.

Continued coordination and resource assistance from HQ will be required during throughout this process. This coordination ensures a sound CAP, a solid GPC program; and proper investigation, processing, and adjudication of certain matters that may arise during the CAP.

[redacted]

Ronald E. Moulton
Senior Vice President and
Desert Southwest Regional Manager

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